

# Investigation scrutinizes for-profit colleges' use of taxpayer dollars

U.S. Department of Education holding back regulations after lobbyist and Congressional push-back

By [Tyler Kingkade](#) | 04.25.11 / 6:30 am

At least 257 for-profit higher education institutions receive more than 85 percent of their income from federal student aid. That figure, however, does not include military aid and benefits paid to individuals going to school on GI Bill benefits. In addition, although roughly 10 percent of for-profit college enrollment is made up of service men and women, the industry is receiving more than a third of money paid out to help veterans attend school.

A recent report by the U.S. Senate Health, Education, Labor and Pensions Committee revealed a combined \$521 million in benefits for veterans and from the Defense Department benefits for veterans in 2010 was received by 20 for-profit schools.

Provided by the U.S. Senate Health, Education, Labor and Pensions committee

For-profit institutions are required to follow the 90/10 rule. That is, only 90 percent of their revenue may come from federal aid. If the formula used for determining the 90 percent included benefits for members of the military many of these colleges would not pass.

This information has been helping to fuel efforts lead by U.S. Sen. [Tom Harkin](#) (D-Iowa) and U.S. Sen. [Tom Carper](#) (D-Del.) to increase scrutiny on for-profit colleges.

“[T]hey are really going after the military in a big way,” Harkin told The Iowa Independent, believing it is because it does not count towards the 90/10 law.

Further fueling the nearly year-long investigation through the HELP Committee, which Harkin leads, is questionable recruiting and retaining efforts that have been uncovered.

Harkin said private non-profit colleges in Iowa, such as Buena Vista University, Simpson College, Graceland College and the like are still doing a good job of educating low-income students; perhaps even better than the Regents, because of the endowments they receive. But his attention toward the for-profit private colleges has raised a number red flags.

“The federal government is putting out half a billion dollars a year in educational assistance for veterans and for active duty personnel,” Harkin further told The Iowa Independent. “When I inquired from the Department of Defense as to where it was going, what was happening to these military people — Were they graduating? Were they getting diplomas? Were they getting jobs? — I got nothing back. The Department of Defense has no data on that. They simply send the money to them and that’s it.”

A Government Accountability Office report concluded along with the investigation Harkin led that the Defense Department and the for-profit industry lacked sufficient scrutiny over where tax dollars were going and how they were being used.

Carper told the Chronicle on Higher Education [he was surprised](#) to learn military aid was not included in the 90/10 rule, and suggested the government should consider adjusting that.

“I’m a big advocate of skin in the game,” he said. “There has to be skin in the game for markets to work.”

Provided by the U.S. Senate Health, Education, Labor, and Pensions committee

For-profits have not been alone in courting members of the military. Nonprofit and public colleges have as well. A 2009 Iowa task force found adding 100 veterans a year would yield an additional \$800,000 in tuition income annually for the University of Iowa and nearly \$2 million in revenue for the city of Iowa City.

For-profit schools have become the fastest growing sector of higher education, moving from 550,000 students in 1998 to more than 1.8 million students by 2008. Although they are still only 10 percent of the total higher education student population in the U.S., they take 42 percent of all Pell Grants.

## Deceptive Recruitment Practices

With little oversight by the government as to where the education benefits for veterans are going or being used, for-profit colleges have stepped up their recruitment of members of the military.

In one instance a veteran was repeatedly told by recruiters that his post-9/11 GI Bill benefits would completely cover the cost of his degree. It was only after enrollment, the veteran said, that he learned he would owe approximately \$11,000 beyond his military benefits to Bridgepoint-owned Ashford University.

This veteran, or veterans overall, were not the only students to file formal complaints against Ashford. The complaints came from students of different backgrounds — more than 700 in a two-and-a-half year period. They accused school officials not only lying to them or misleading them, but of charging them with undisclosed fees.

One student claimed he was told he would be able to receive his teaching license from Ashford, based in Arizona. Yet a year later, right before his scheduled graduation, he learned Ashford was not allowed by the state of Iowa to award teacher licenses, and that he would have to attend a “cooperating school” in Arizona for a year. In the complaint he stated, “I was really blown away to find out that I had spent so much time and money at a college that I was not going to be able to obtain my teacher’s license from.”

A number of [students also reported receiving very little help](#) once inside for-profit institutions, insisting there was more emphasis on recruiting rather than assisting students’ classwork. Indeed, some documents detailed instructions for officials to make at least 50 outbound calls a week in recruiting efforts and hold meetings almost daily with prospective students.

In [undercover audio recordings](#) by GAO agents, counselors at the for-profit schools can be heard discrediting traditional universities for large class sizes, insisting they would not be receiving a value education. While there are lecture courses with sometimes more than 300 students in a class, most classes taken at Iowa’s public universities throughout a degree program have less than 50 students in them. They also go on to tell potential students they would have to try to get less than a B in their classes at the for-profit college.

The GAO encountered some schools encouraging prospective students to falsify documents in order to receive

more aid.

Perhaps the most alarming tactic found within internal documents recently released was the use of the “Pain Funnel.”

Lines within the documents from the for-profit ITT Technical Institute, which has more than 100 campuses nationwide, include “Remind them of what things will be like if they don’t continue forward and earn their degrees” and “Poke the pain a bit and remind them who else is depending on them and their commitment to a better future.”

## Drop Out Rates

Colorado Tech University’s online program has a 61 percent drop-out rate. The University of Phoenix’s Axia College has seen 84 percent of their students drop out.

Jason Deatherage, former admissions adviser at Colorado Tech, was fired for not meeting his quota of recruiting military vets. He told the New York Times there is [massive pressure to enroll](#) more veterans.

“We knew that most of them would drop out after the first session,” Deatherage said. “Instead of helping people, too often I felt like we were almost tricking them.”

Bridgeport Education had a 63 percent drop-out rate in 2009. Despite such a high rate of drop-outs, that year Bridgeport’s Chief Executive Andrew S. Clark earned almost twice as much as Charles Edelstein, CEO of the University of Phoenix, when he raked in \$20.5 million.

Provided by the U.S. Senate Health, Education, Labor, and Pensions committee

## Student Debt Load and Career Barriers

Although, 11 of 16 community colleges in Iowa report graduation rates comparable to or worse than Bridgeport, students at for-profit institutions are almost twice as likely to default on their student loans.

Katie Bushnell currently attends Full Sail University, a for-profit school focused on the entertainment business. Bushnell takes classes online and expects to graduate within a year with a Bachelor’s degree and nearly \$70,000 in student loan debt.

According to recent data released by the U.S. Department of Education, 13.8 percent of students who began repaying their public-private partnership loans in 2008 have since defaulted. For-profit institutions, however, reported 25 percent of their graduates defaulting after three years. There has been increased scrutiny over for-profit colleges as they enroll less than a fifth of all students but produce nearly half of all loan defaulters.

Bushnell actually walked away from traditional schools before coming to Full Sail. She started at Iowa State University, then attended Des Moines Area Community College and Indian Hills Community College. Much of her collegiate experience has been financed through student loans; however, she’s been working full-time hours to afford housing and living expenses since her family cannot contribute.

She counters the complaints students have lodged at other for-profits about not receiving support while taking classes.

“Full Sail does have excellent career services that has been helping me with resumes and career building exercises,” Bushnell said.

But Bushnell is worried about what she might end up doing after college since the entertainment business in Iowa is so small. She wanted to do music promotions, but with limited opportunities, she’s now considering out-of-state sports teams. Taking classes online, combined with trying to find work and build experience booking concerts during college has also placed obstacles in her way.

“I do miss having a set class time, because it is very difficult to focus and very easy to procrastinate with online classes,” Bushnell said. “Working full time and then coming home to classes is tough chore. I am envious of students who don’t have to work full time and still get by while in school.”

Watching tuition increases and budget cuts to public universities though is a big incentive for Bushnell to avoid going back to public colleges.

## Contributions and Oversight

Part of Harkin’s investigation found 95 to 98 percent of students attending for-profit colleges borrowed money to attend. Since the average cost of a credit hour was often more than double that of tuition for a public college, the debt loads were significantly higher. Iowa has ranked in the top five for highest average student debt load by the Project on Student Debt every year that they’ve compiled data, ahead of all other Midwestern states.

With all of these reported problems, Harkin is seeking better oversight of the half a billion taxpayer dollars going to the for-profit colleges through military members’ benefits.

The Department of Education has already brought forward a new plan that would deny for-profits from receiving federal student aid if their graduates cannot pay off their student debt in a reasonable time frame.

While Harkin has been leading this charge, he has also been among the recipients of donations from the industry. As The Iowa Independent [reported in 2010, he took significant donations](#) from DeVry, Inc. and Bridgepoint. Democratic U.S. Reps from Iowa, [Bruce Braley](#) and [Dave Loebsack](#), also took contributions, as did U.S. Sen. [Chuck Grassley](#) (R-Iowa).

U.S. House Speaker [John Boehner](#) (R-Ohio) was [one of the biggest benefactors](#) in contributions from the industry, receiving more than \$30,000.

DeVry, based in Illinois, [spent more than \\$300,000 on lobbying efforts](#) in 2009 and 2010. Ten of the industry’s top companies collectively [upped their spending on lobbying](#) from \$1.5 million in 2009 to more than \$4 million in the first nine months of 2010. The industry is fighting against any new regulations.

“We need better oversight, and we need to bring this to light,” Harkin said. “I’ve had this ongoing investigation and it seems things keep getting worse and worse.”

The Education Department [held back on imposing their new plan for regulations](#) after facing heavy push-back from lobbying and opposition in Congress.

Wall Street money manager Steven Eisman testified before the HELP Committee last summer and called for-profit colleges “marketing machines masquerading as universities.” Eisman has hedged bets on some of these

education corporations, but warned the committee the industry was reaping those rewards while taxpayers were at risk, as the companies are running on federal aid.

Harkin said Attorneys Generals around the country, including Florida, Illinois, Kentucky and Iowa's [Tom Miller](#), have launched investigations into the schools for any unlawful conduct. California and Maryland's legislatures are pushing through bills to reduce or eliminate state aid to the for-profit colleges.

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